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SUBJECT: Vietnam: Further Effects of Global Financial Crisis

REF: A) Hanoi 1158 (Effects of U.S. Financial Crisis on VN)
B) Hanoi 1171 (VN Stock Market Drops on Global Financial Turmoil)
C) HCMC 972 (VN's Exporters Expect to Grow in 2009, But More Slowly)
D) Hanoi 1206 (GVN Cuts Rates on Fears of Slowdown)
E) Hanoi 1242 (VN Macroeconomic Update)
F) Hanoi 1250 (VN Favors Global Solution to Financial Crisis)
G) Hanoi 1316 (VN Shifts Focus to Maintaining Growth)

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11. (SBU) Summary: The U.S. financial crisis and the resulting global economic slowdown continue to have ramifications in Vietnam (reftels). The GVN is preparing a fiscal stimulus in response to growing negative economic numbers, though the size and details are still under consideration. Demand in Vietnam's major labor export markets is weakening, and as a result, remittances from overseas workers are expected to decline. Vietnamese tourism officials report that arrivals are falling significantly and will likely drop in 2009 compared to this year. The IMF projects that Vietnam's economy will grow 5 percent next year and inflation fall to single digits. The current account deficit will decline but remain high as a percentage of GDP. The fiscal deficit will rise to 8.3 percent of GDP, a shortfall the GVN will likely fund domestically. The risks to these projections are to the downside, the IMF says. End summary.

Government Preparing Fiscal Stimulus

12. (SBU) In response to the growing tide of negative economic news (reftels), the GVN recently announced a USD 1 billion stimulus package and now says it is considering boosting the size by approximately USD 5 billion more. The original package of USD 1 billion reportedly included money for high-priority development projects, including construction and housing and interest-free credit for state-owned distributors to make rice purchases.

13. (SBU) According to sources at the Office of Government, an official announcement on the additional USD 5 billion is expected at the monthly cabinet meeting sometime this week. Nonetheless, Deputy Prime Minister Nguyen Sinh Hung discussed the additional amount with a group of young businessmen on December 14, saying that the GVN "will use its reserve fund to support production, business and consumption, as well as exempt and cut down taxes to businesses, particularly small and medium-sized firms." He added that part of the package will be used to invest in rural infrastructure development, including the construction of schools, hospitals and

houses for low income residents, as well as "vocational training, hunger eradication and poverty elimination." Hung also said that the money would come from various sources, including the issuance of new government bonds.

¶4. (SBU) Local economists are already privately voicing concerns to us about how the money will be spent, noting that channeling more money into state owned enterprises (SOEs) will result in potentially inefficient or unimplemented projects, a primary source of inflation earlier this year. Nguyen Dinh Cung, Director of Macroeconomics for the Central Institute for Economic Management, told the press that he couldn't say "whether it is a good and effective investment - it depends on how the government spends and controls it." The PM and several DPMs held a meeting with SOEs on December 16 to discuss measures to prevent economic slowdown, but many of the SOEs used their time to request funds from the stimulus package. The Chairman of Vinatex, a state owned textile firm, took a different approach, suggesting that the GVN distribute stimulus funds directly to needy people "as is done in other countries."

Foreign Demand for Vietnamese Labor Drops

¶5. (SBU) At a December 15 Hanoi Conference on Employment and Labor Export, Vietnamese officials said that demand in Vietnam's major labor export markets has weakened as a result of the global economic crisis. Factories in Taiwan, Malaysia, and Korea are reducing operations and are no longer providing employees with extra work, which usually accounts for 20 to 40 per cent of the workers' total income. Some Vietnamese workers in Taiwan reportedly face the prospect of having their labor contracts terminated early, and some firms in Taiwan and Malaysia have stopped receiving workers despite signing contracts. In the first 11 months of 2008, Vietnam sent 78,700 workers overseas to its main markets. The target for 2009 is

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90,000 workers, but many now question the feasibility of this goal. A large decline in foreign worker remittances would not help Vietnam's relatively precarious balance of payments situation, which relied on remittances for an estimated \$8 billion in foreign exchange payments in 2008.

Tourism Falls

¶6. (SBU) Another source of needed foreign exchange earnings -tourism - is also declining as a result of the global economic downturn. International tourist arrivals have been falling over recent months, with October bringing 300,000 visitors, a drop of almost 12 percent compared to October of last year. November arrivals were down 22 percent year on year, although part of this decline may have been due to airport closures in Bangkok. Tourism operators note that clients from the United States and Europe are increasingly scarce compared to years past. The Minister for Culture, Sports and Tourism warns that the tourism sector, which employs more than 10 percent of Vietnam's workforce, is facing zero or possibly negative growth in 2009. The Vietnam National Administration of Tourism is more pessimistic, projecting that arrivals will fall 20 to 30 percent compared to 2008.

IMF Projects 2009 Growth of 5 Percent

¶7. (SBU) In a December 18 briefing for the diplomatic corps at the conclusion of annual Article IV Consultations, IMF Assistant Director in the Asia and Pacific Department Shogo Ishii said the IMF projects that Vietnam's economy will grow by 5 percent in 2009 and year on year inflation will fall to single digits by year end. The current account deficit is forecasted to drop with very rapidly declining imports offsetting lower exports, FDI, and private remittances. However, the current account deficit will remain at a high level (9 percent of GDP) and remains a source of vulnerability given Vietnam's relatively low 3 months of international reserves to import cover. The IMF said that risks to these projections are primarily on the downside given likely further drops in global economic growth.

¶8. (SBU) The IMF projects that the GVN's fiscal deficit (using international standards) will rise significantly to 8.3 percent of GDP in 2009 given falling tax revenues. The GVN told the IMF it will fund the shortfall domestically, probably through bond issuance. The Ministry of Planning and Investment (MPI) tells us that funding will come from several sources, including disbursed ODA. This budget projection does not include the \$6 billion in announced fiscal stimulus. The IMF said the GVN did not ask for advice on the stimulus package and the IMF believes its size, details, and funding are still under debate. The IMF representative noted that fiscal stimulus could lead to increased imports and pressure Vietnam's balance of payments. The IMF cautioned the GVN about further monetary policy easing and the impact it could have on the exchange rate. [Note: Per reftels, the GVN has dramatically dropped its base interest rate, now at 8.5 percent, and cut banks' required reserve ratios in the last two months. End note.] It also emphasized that the GVN should be prepared to deal with any banking system strains as non-performing loans are expected to increase in ¶2009.

Michalak